MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BME1014 – INTRODUCTORY MICROECONOMICS

(All Sections/Groups)

15 OCTOBER 2019
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages with 4 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Structured Questions (100 Marks)

QUESTION 1

(a) Explain the economic problem faced by every society. (10 Marks)

(b) Describe positive economic analysis and normative economic analysis and economic actions should be taken. (15 Marks)

(Total: 25 marks)

QUESTION 2

(a) Graphically discuss how the mechanism of market will restore its equilibrium when the existing price level is above or below the market equilibrium. (15 marks)

(b) Critically discuss the differences between price elasticity of demand and income elasticity of demand. (10 marks)

(Total: 25 marks)

QUESTION 3

(a) Explain the importance of differentiating explicit and implicit costs for a firm. (10 marks)

(b) Based on the table below answer the following questions:-

Table 1: Revenue and costs figures for Tee Berhad

Quantity	Price	Total Revenue	Marginal Revenue	Marginal Cost	Total Cost	Total Profit
20				16	389	
21					407	
22					427	
23					454	
24					484	

i. Complete the chart for Tee Berhad which is operating under conditions of perfect competition where the market price is RM22. (10 marks)

ii. Which level of output maximizes the Tee Bread's profits? (5 marks)

(Total: 25 marks)

Continued...

QUESTION 4

(a) What is an oligopoly and why does exist? Give three examples of an oligopoly markets. (10 marks)

(b) In Malaysia, both Toyota and Honda compete aggressively by changing the designs and the engines of their cars. Both car companies are thinking whether they should use the old 2500cc engines for their Toyota Camry and Honda Accord or introduce the new 2000cc turbo charged engines.

i. Construct a payoffs matrix using the following scenarios:

1. If both companies continue to use the old 2500cc engines both will earn RM500 million. (1 mark)

2. If both companies introduce the new 2000cc turbo engines in their cars both will earn RM600million. (1 mark)

3. If Honda introduces the new 2000cc turbo charged engines in their Accords and Toyota does not do so in their Camry; Honda will earn RM900 million and Toyota will earn RM300 million. (1 mark)

4. If Toyota introduces the new 2000cc turbo charged engines in their Camry and Honda does not do so in their Accord; Toyota will earn RM900 million and Honda will earn RM300 million. (1 mark)

ii. If Honda wants to maximize their profit, will it use the new 2000cc turbo engine? Explain. (4 marks)

iii. If Toyota wants to maximize their profit, will it use the new 2000cc turbo engine? Explain. (4 marks)

iv. What is the Nash equilibrium of this game? (3 marks)

(Total: 25 marks)

End of Paper.